Exhibit 5

Saudi banks buck international trend

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Stephen Timewell reports from Riyadh on how most of Saudi Arabia's banks are enjoying a profitable year.

Most Saudi arabian banks not only carried through their stellar performances of 2000 into 2001 but also managed, despite the upheavals of September 11 and its aftermath, to show significantly improved growth and profitability. While 2002 promises to be a much tougher year, with different economic and political variables at play, there is considerable growth potential in the rapidly expanding retail market and optimism that the forthcoming capital markets law will bring significant benefits.

"The banks are doing very well, both in terms of profit, capital ratios and liquidity as well as in the advancement of technology," Sheikh Hamad Al-Sayari, governor of the Saudi Arabian Monetary Agency (SAMA), told The Banker. The combined net income of the kingdom's 10 banks (as well as the recently established Gulf International Bank branch in Riyadh) rose a further 10.6% in 2001 to SR10.2bn ($2.72bn) following strong expansion the year before. The combined return on equity in 2001 reached a healthy 21.2% and a strong 2.2% return on assets.

Interest rate fall boosts income

Much of the income growth was attributed to the sharp decline in interest rates in 2001, which helped improve bank margins. Net interest income, or net commission income as it is called in Saudi Arabia, rose 11% to SR12.8bn as a result of a 25.4% decline in net interest (commission) expense. Also, a sizeable 7.3% gain on investments to SR 3.5bn helped boost overall profits. Although banks have seen improvements in all sectors, the key area of excitement for bankers is in the retail area where consumer loans and Islamic-related products are in huge demand. With tighter margins in the corporate finance, treasury and project finance areas, retail is viewed not only as a high growth but also as a high-margin business. Many banks are focusing their activities on retail. "Our main thrust is retail and our vision is to be the premier consumer bank in Saudi Arabia," says Abdulhadi Shayif, general manager of National Commercial Bank (NCB), the country's biggest bank.

Retail banks leads profit centre

According to NCB's chief economist, Said Al-Shaikh, retail banking is the largest profit centre for Saudi banks by far. "For Saudi banks [excluding NCB and Al-Rajhi], total assets of the retail banking segment rose 7.6% to SR58.2bn in 2001; while those of treasury and corporate banking grew by 4.9% to SR250.2bn."

He adds: "Meanwhile, net income for retail banking grew 8.4% to SR2.7bn, representing 41% of total net income, while that of treasury and corporate banking increased by 17.2% to SR3.4bn, accounting for 51% of total net income. As a result, return on assets for retail banking stood at 4.6% last year, while that for treasury and corporate banking amounted to 1.3%." The key

factor behind the retail expansion is the banks' growing confidence in and appetite for consumer loans. The relatively new interbank SARIE transfer system has enabled salaries, especially those of government employees, to be assigned to banks, enabling credit to be given with greater assurance of repayment.

This mechanism has allowed consumer loans to expand dramatically. In 2001, the fastest growth in lending was recorded in the retail sector where such loans increased by 50%, from SR26bn to SR40bn. Bankers, such as Arab National Bank's chief executive Nemeh Sabbagh, believe retail finance has only just begun and there is huge potential through new products such as ANB's Islamic consumer loan programme.

Diversity encouraged

While SAMA's Mr Al-Sayari is naturally cautious about banks overexpanding in this area, he believes further retail expansion is possible. The regulator is encouraging both traditional (commission or interest-driven) products as well as Islamic products. "Both modes of finance can exist together," says SAMA's deputy governor Jammaz Al-Suhaimi. New Islamic (non-interest bearing) products had attracted SR65bn in assets until the end of January 2002.

Saudi banks continue to attract an increasing volume of customer deposits, and correspondingly are showing a reduced reliance on interbank funds (down 20.4% in 2001), which is a healthy trend. In 2001, overall customer deposits rose by 7.4% to SR340bn but, unlike other banking systems, 46% of these are non interest bearing deposits (NIBs). This huge NIB figure has provided a major source of income for Saudi banks over the years but, in a low interest rate environment, this cushion is squeezed, so banks will be forced to find alternative sources of income.

NCB nurtures Islamic banking

Many banks are adopting new strategies in the new environment. NCB, the largest bank in the country with total assets of SR99.5bn ($26.5bn), is not only expanding its retail focus but also its investment management business. With SR24bn in assets under management, it is the largest provider of Islamic funds in the world. Of its extensive 255 branch network, 70 branches are exclusively Islamic.

Of the SR18bn held in 17 Islamic funds, the largest is the Saudi Riyal Commodity Trade Fund, with assets of SR11bn. The bank hopes to build its asset management capability through extending further its retail capabilities. This year it hopes to add another nine branches and a further 150 ATMs to its existing 600 ATM network.

NCB is the only bank in the kingdom that does not publicly disclose all its figures - only the bare bones are published. This, however, seems to be a political decision beyond the control of both bank officials and the regulator. At present, NCB is 70% owned by the state-owned Public Investment Fund (PIF); the former owners of the bank, the Bin Mahfouz family, are understood to be out of the bank. Discussions of a so-called privatisation of NCB or a stock market sale have been in the market for some time but no official date has been set and any move this year is thought unlikely. SAMA's Mr Al-Sayari told The Banker, however: "PIF will eventually sell NCB; you need to consider the state of the market. The policy is not to hold on to the shares of NCB - PIF will put them into the market at the appropriate time." Perhaps the long-awaited new capital markets law, now before the government's consultative council, will provide the appropriate mechanism for the eventual sale of NCB.

Samba dances to profits tune

Saudi American Bank (Samba) is the second largest bank, with total assets of

SR77.2bn. It is also the most profitable, with net income up 12.3% to SR2.25bn ($600m) and a very acceptable 26.8% return on equity. Showing its dominant position, Samba's profits account for 22% of the profits for all the banks. Like others, Samba's success is partially attributed to a solid 3.4% rise in net interest (commission) income. Managing director Mike de Graffenreid is reshaping the bank around the retail and small and medium-sized enterprise (SME) areas, where greater growth is expected.

Riyad Bank also saw good profit growth, rising 11.6% to SR1.35bn. New chief executive Talal Al-Qudaibi is keen to leverage the range of distribution channels now available and believes mobile banking offers lots of promise. Riyad, which increased its consumer lending by 40% last year, has introduced bancassurance products in a joint venture with the UK's Royal & SunAlliance, and is seen as the market leader in project finance among Saudi banks. Analysts also note that Riyad was the most profitable retail operation in 2001; generating a 41% increase in net income to reach SR663m and an 11.5% return on assets. Al Bank Al Saudi Al Fransi's (BSF) retail business came in second place with a 10.7% return on assets, adding SR236m to net income. In fact, BSF achieved the highest overall profit growth of all banks with net income jumping by 29.4% to SR844.4bn.

Al-Rajhi bounces back

At Al-Rajhi, profits were 18.8% down on the previous year but the bank, which deals solely in Islamic banking, still managed to post a very solid 22.9% return on equity. Ironically, Al Rajhi was hit hard by the sharp decline in interest rates in 2001, which led to a 5.25% drop in operating income, and was also damaged by its $90m exposure to Enron. General manager Abdullah Sulaiman Al Rajhi says the Enron exposure is 100% provided for and is in the hands of lawyers. He believes that Al Rajhi is the largest for consumer loans and, with the bank's extensive network, he expects the consumer area to grow further. Of the medium-sized banks, all showed strong profit expansion, with Arab National showing 20% net profit growth and success in the recent launch of an Islamic investment vehicle, Tawaruq, and its new mobile banking service. At Saudi Hollandi Bank, which produced an excellent 24.0% return on equity result in 2001, managing director Henk Mulder says corporate business is still the bank's largest activity but adds: "Consumer business will move ahead of corporate in the future."

SBB evades expansion

At Saudi British Bank (SBB), another medium-sized bank with a return on equity of more than 20%, retail growth does not mean branch expansion. Like the other medium-sized banks, SBB has no plans for more branches (80 at present), and is focusing on improving its call centre and service facilities. SBB's managing director David Hodgkinson adds that his bank began employing women in the early 1990s and with 230 now employed, some women are now coming through to middle management - a major step in the kingdom. Meanwhile the country's smallest institution, Bank AlJazira, is moving towards a full focus on Islamic banking. Assistant general manager John Evans says: "We see Islamic banking as the largest growth area and we want to be a part of it." AlJazira has altered its strategy and is now targeting the more affluent Saudis who want to do Islamic banking. In short, if is offering a tailored private banking service from its specialised 13-branch network. As a small bank with a national network, Aljazira may make an attractive takeover target but no offers are on the table.

Looking to 2002, bankers are far less sanguine about their prospects and fear a tough year. The oil situation is always a factor and the government's planned budget deficit of SR45bn, which includes a decrease of 20% in budgeted expenditure from actual 2001 spending, sets an austere tone. With oil production starting the year at seven million barrels a day, its lowest level in a decade, and real GDP forecast to contract by 1% overall bankers are not bullish. With further interest rate cuts unlikely, bankers are not expecting any windfall margin gains and are concerned that a slowdown in government

expenditure and the oil sector may lead to the traditional problem of payment delays and problem loans.

But it is not all grim news. Samba's chief economist Brad Bourland says: "The continued bright spot in the economy is the non-oil private sector. It appears that personal consumption expenditure and confidence and non-oil business activity has held up well in the kingdom and probably will continue to do so through 2002."

Bankers roundly agree that the retail sector has enormous growth prospects, which can be expected to continue almost regardless of the international oil market or external events. The consumer area will be the main driver this year; and banks are pushing hard with new products and new sources of revenue, which should continue to show results.

Such domestic activity may be able to sustain the growth achieved in recent years by the Saudi banks but, as always, plans can be overtaken by unforeseen events. That said, an optimistic scenario on the oil front and the international economy could bring benefits to the local banks and the long-term changes brought by measures such as the new capital markets law and privatisation efforts can only prove positive for the banks.

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